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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP D/B/A ROCKY MOUNTAIN POWER AND IDAHO POWER COMPANY FOR AN ORDER AUTHORIZING THE EXCHANGE OF CERTAIN TRANSMISSION ASSETS.	)	CASE NO. IPC-E-14-41 CASE NO. PAC-E-14-11

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

LISA A. GROW

Q. Please state your name and business address.
A. My name is Lisa A. Grow and my business address is 1221 West Idaho Street, Boise, Idaho 83702.
Q. By whom are you employed and in what capacity?
A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as the Senior Vice President of Power Supply.
Q. Please describe your educational background and work experience with Idaho Power.
A. I graduated from the University of Idaho in 1987 with a Bachelor of Science degree in Electrical Engineering. I received an Executive Masters of Business Administration from Boise State University in 2008. I began my career at Idaho Power after graduating from the University of Idaho in 1987, and have held several engineering positions before moving into management in 2005. In 2005, I was named Vice President of Delivery Engineering and Operations. In 2009, I was appointed to my current position as Senior Vice President of Power Supply. My current responsibilities include overseeing the operation and maintenance of Idaho Power's generation fleet, power plant engineering and construction, environmental affairs, water management, power supply planning, and wholesale electricity and gas operations. I also oversee Idaho Power's load serving operations, which

is responsible for delivering reliable energy to customers through the Company's electrical grid using its generation portfolio and system purchases.

Q. What is the Company's request in this proceeding?

A. Idaho Power and PacifiCorp (together, the "Parties"), are seeking the approval from the Idaho Public Utilities Commission("Commission"), pursuant to the requirements of Idaho Code § 61-328, of an asset exchange transaction designed to replace certain obsolete and operationally inefficient legacy transmission ownership, operation, and service agreements ("Legacy Replacement").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to: describe the history and background related to the existing legacy transmission ownership, operation, and service agreements[1] ("Legacy Agreements"); explain the desire of the Parties to pursue the replacement of the Legacy Agreements with a Legacy Replacement; describe the structure of the Legacy

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[1] The Second Restated and Amended Transmission Facilities Agreement, Restated Transmission Services Agreement, and the First Revised Agreement for Interconnection and Transmission Services are the primary agreements between the Parties. There are a number of related agreements which support or are directly connected to these agreements. The agreements are collectively referred to as the "Legacy Agreements." A complete list of the Legacy Agreements that will be replaced, amended, or consolidated by the proposed transaction are identified in Schedules 1.1(g) and 1.1(h) to the Joint Purchase and Sale Agreement.

Replacement; and to summarize the benefits of the Legacy Replacement for Idaho Power and its retail customers.

Q. Are any other individuals filing testimony on behalf of Idaho Power in this proceeding?

A. Yes. The following individual is providing testimony on behalf of Idaho Power:

- David M. Angell, Planning Manager in the Customer Operations Engineering and Construction Department, has prepared testimony on the new ownership rights and system benefits as a result of the Legacy Replacement.

Q. Are there any other individuals filing testimony in this proceeding?

A. Yes. The following individuals are providing testimony on behalf of PacifiCorp in this proceeding:

- Richard A. Vail, Vice President of Transmission, has prepared testimony that describes the reliability and operational benefits and the financial implications for PacifiCorp as a result of the Legacy Replacement.
- Gregory N. Duvall, Director of Net Power Costs, has prepared testimony supporting PacifiCorp Energy's new firm transmission rights following the close of the Legacy Replacement.

Together, the testimony from the Parties will demonstrate that the Legacy Replacement satisfies the requirements of Idaho Code § 61-328.

I. **THE LEGACY AGREEMENTS**

Q. Please describe the origins of the Legacy Agreements.

A. In 1969, over 40 years ago, Idaho Power and Pacific Power and Light ("PPL")[2] entered into a series of agreements for the construction, ownership, and operation of the Jim Bridger power plant ("Jim Bridger Plant"). The intent of each party at the time of contracting was to use their respective share of the Jim Bridger Plant to serve their respective load responsibilities.

In 1974, Idaho Power, PPL, and Utah Power and Light ("UPL") entered into the Transmission Facilities Agreement ("TFA") which provided for the construction, ownership, maintenance, and use of three 345 kilovolt ("kV") transmission lines, and associated terminal and substation facilities, connecting the Jim Bridger Plant to the Idaho Power and PacifiCorp transmission systems in southeastern Idaho. UPL's participation in the Jim Bridger transmission system was in lieu of having to construct its own 230 kV transmission lines into the Goshen, Idaho area. The TFA gave PPL the right to move its share of energy from the Jim

[2] Pacific Power & Light was the predecessor company of PacifiCorp and in 1989 PacifiCorp acquired Utah Power & Light.

Bridger Plant to the eastern boundary of Idaho Power's transmission system.

In 1979, Idaho Power and PPL decided to add a fourth 500 megawatts ("MW") generator to the Jim Bridger Plant. This required significant additional transmission capacity westbound through Idaho from the western terminus of the Jim Bridger 345 kV transmission system. To provide this additional capacity, Idaho Power and PPL executed a Transmission Services Agreement ("TSA") dated September 10, 1980, under which Idaho Power would provide transmission services to PPL in conjunction with the construction of the fourth generating unit at the Jim Bridger Plant, for transfer of up to 1,600 MW of specified resources in a westerly direction to PPL's western system for its use. Subsequently, Idaho Power and UPL entered into an Interconnection and Transmission Services Agreement ("ITSA") dated March 19, 1982, which provided for an interconnection and transmission to UPL at Idaho Power's Borah Substation.

Q. Have the Parties amended or revised the Legacy Agreements?

A. Yes. Over the last 40 years, the Legacy Agreements were revised, amended, and restated. In particular, the TSA ("RTSA"), TFA ("RATFA"), and ITSA were amended and restated several times for various reasons, including but not limited to, changes in commercial terms, operational requirements, ownership, and regulatory compliance.

Q. If the Legacy Replacement is approved, will the existing Legacy Agreements be terminated?

A. Yes. For a complete list of the Legacy Agreements that will be terminated or amended upon approval of the JPSA, please see Schedules 1.1(g) and 1.1(h) to the JPSA.

II. DRIVERS FOR LEGACY REPLACEMENT

Q. Have the Legacy Agreements become inefficient and obsolete?

A. Yes. Over the last 40 years, the regulatory landscape, the evolution of the Parties' ownership interests, the Parties' respective load growth, regulation, and investments in system upgrades have rendered the allocation of ownership and operational responsibility provided for under the Legacy Agreements incompatible with each Party's modern day load-service and regulatory obligations.

Q. Are the terms and conditions of the Legacy Agreements comparable to standard Open Access Transmission Tariff ("OATT") transmission service agreements?

A. Currently, the ITSA is OATT-like service and treated as such with respect to Idaho Power's OATT formula rate. Upon approval of the asset exchange, the 250 MW of transmission service under the ITSA will be converted to standard OATT service, resulting in no change in the treatment of the ITSA in Idaho Power's OATT formula rate. However, the RTSA and the RATFA are considerably different from the transmission service provided under the OATT.

Q. Please describe the primary differences between the Legacy Agreements, excluding the ITSA, as compared to standard OATT transmission service agreements.

A. The primary differences between the Legacy Agreements, excluding the ITSA, versus the OATT are that: (1) PacifiCorp faces restrictions, such as the lack of flexibility and resale rights, on the use of the Legacy Agreement service that OATT point-to-point customers do not experience; (2) firmness of service under the Legacy Agreements is more complex with components and circumstances less firm than the Federal Energy Regulatory Commission ("FERC") has defined for OATT firm point-to-point transmission service; and (3) at the time, the pricing under the Legacy Agreements was the result of a bilateral agreement. Overall, the Legacy Agreements lack the OATT operational flexibility, as well as the uniform curtailment provisions found in OATT service.

Q. Have the Legacy Agreements created challenges for the Parties?

A. Yes. The Parties have experienced a number of challenges, including disagreements over operational and commercial issues with respect to the administration, interpretation, management, and implementation of the Legacy Agreements.

Q. Please describe some of the challenges the Company has experienced because of the outdated Legacy Agreements.

A. Under the existing Legacy Agreements, it is unclear as to which Party has the right to serve load across which lines and under what conditions. The Legacy Agreements are not as clear and concise as the ownership and OATT service rights that will exist under the Legacy Replacement.

Also, executing the rights assigned under the Legacy Agreements is operationally difficult. They restrict usage to certain plants, lines, and conditions that ownership and OATT service would not. Operationally, it forces Idaho Power to manage the contractual rights of PacifiCorp separate from other uses of the system, adding complexity to the reliable operations of Idaho Power's transmission system. Under the proposed ownership structure, the difficulty of managing specific operating provisions and/or restrictions is eliminated and transmission rights are managed the same as any other use of the system.

III. <u>DESCRIPTION OF THE LEGACY REPLACEMENT</u>

Q. Can you please summarize the components of the Legacy Replacement?

A. Yes. Under the terms of the JPSA: (1) the parties will exchange transmission assets or ownership interests in jointly-owned assets, and a nominal amount of cash to balance asset values, to better align asset ownership with load service obligations and (2) replace approximately 1,600 MW of transmission services provided under the RTSA and RATFA with asset ownership and OATT service.

The Joint Ownership and Operation Agreement ("JOOA") is the principal exhibit to the JPSA and consolidates and modernizes the operational provisions in the Legacy Agreements into a single contract. The JOOA defines the allocation of directional transmission capacity on jointly-owned transmission facilities and allows the owners to invoice each other for operation and maintenance expense and for the use of common facilities under FERC-approved rates.

Q. Why are the Parties requesting to enter into an asset exchange as a mechanism to terminate the Legacy Agreements?

A. The Parties determined that a thoughtfully and strategically designed asset exchange would result in: more transparency with respect to transmission asset ownership and transmission service rights between the Parties and their customers; the highest level of operational and reliability benefits; and would have the least impact financially to both the Parties and their customers.

Q. What are the assets to be exchanged under the JPSA?

A. Generally speaking, the Parties are reallocating their respective ownership interests and operational responsibilities with respect to various integrated transmission facilities in Idaho, Oregon, Washington, and Wyoming. The specific assets included were determined between the Parties as those required to provide the Parties with owned paths from resource to load across the transmission system and through each substation associated with the various transmission lines. The transaction does not create any new available transmission capacity. Mr. Angell's testimony provides a detailed overview of the specific assets Idaho Power will acquire from PacifiCorp and the resulting operational and system benefits of acquiring those facilities.

Q. What is the approximate value of the assets being exchanged under the terms of the JPSA?

A. The Parties' current estimate is approximately $43 million each. The net book values are estimated as of

December 31, 2014, and subject to a true-up adjustment following the closing date of the proposed exchange.

Q. Can you please summarize the OATT transmission services that are provided for in the Legacy Replacement?

A. Under the terms of the JPSA, PacifiCorp will purchase 510 MW of long-term point-to-point transmission service from Idaho Power, which represents a portion of its operational needs. The OATT service will replace the current yearly cost of service paid by PacifiCorp to Idaho Power under the Legacy Agreements. The Parties' new arrangement will align with FERC's preference for transactions to be OATT-based. With OATT-based transactions, all operations will continue to be governed by current reliability standards and industry business practice language and avoid reconciliation of new standards to the antiquated language of the Legacy Agreements, which can be subject to interpretation and potential disagreement. The new OATT-based transactions will add flexibility and transparency through redirect, reassignment, and rollover rights allowing for efficient use of the assets and may help to facilitate the development of new markets, such as the Energy Imbalance Market.

Q. What are the anticipated benefits of consolidating and modernizing the operational provisions of the Legacy Agreements into the JOOA?

A. The JOOA has several operational benefits that will provide efficiency and update the operations of the Parties. Because the Legacy Agreements pre-date current regulatory obligations such as mandatory reliability standards, FERC's open access policy, and North American Energy Standards Board ("NAESB") approved scheduling practices, the Parties are forced to manage these obligations outside the established regulatory construct applicable to each Party's arrangements. The manual scheduling process will be replaced by a more efficient automated process with execution of the JOOA. The new automated scheduling practices will be consistent with the NAESB standards. Moreover, the operational complexity under the antiquated Legacy Agreements creates the potential for conflicting interpretations between the Parties. The JOOA will provide simpler and more transparent transmission service obligations, while at the same time modernizing the Parties' relationship.

Q. Please describe some of the day-to-day operating benefits under the JOOA.

A. Under the JOOA, each Party will manage its jointly-owned facility capacity through its respective

OATT. Neither Party will be allowed to post on Open-Access Same-Time Information System for sale more than its allocated capacity. During scheduling, all electronic tags[3] (e-Tags) will now identify the operator of the path as a scheduling entity. This will provide scheduling transparency with respect to each company's jointly-owned facilities and result in more efficient and reliable transmission system operation. The Parties will also create a method to determine and allocate losses for the use of the transmission system within the other Party's Balancing Authority Area, consistent with governmental and reliability standards.

IV. BENEFITS OF LEGACY REPLACEMENT

Q. Please summarize, at a high level, the overall benefits of the Legacy Replacement to Idaho Power.

A. Mr. Angell's testimony addresses the operational, reliability, and system benefits of the Legacy Replacement for Idaho Power in detail. I will focus my testimony on the revenue requirement benefits the Legacy Replacement provides for Idaho Customers.

[3] E-tags also known as Requests for Interchange, are used to schedule interchange transactions in wholesale markets. North American Electric Reliability Corporation's (NERC) *Glossary of Terms Used in Reliability Standards* (updated October 1, 2014) defines an interchange transaction as "[a]n agreement to transfer energy from a seller to a buyer that crosses one or more Balancing Authority Area boundaries." *See* *http://www.nerc.com/files/Glossary_of_Terms.pdf*

Q. Can you elaborate on how the Legacy Replacement will produce revenue requirement benefits?

A. Yes. If approved, the Legacy Replacement, through the termination of the RATFA, RTSA, and ITSA, will result in a modification of the inputs within the OATT formula rate that more accurately reflects Idaho Power's cost of service, benefitting Idaho Power's retail customers.

Q. Please explain the treatment of the RATFA, RTSA, and ITSA within Idaho Power's OATT formula rate.

A. On March 24, 2006, Idaho Power submitted an OATT filing to the FERC requesting an increase in transmission rates. In the filing, the Company proposed to move from a fixed rate to an annually updated formula rate based upon the total transmission revenue requirement. The formula rate reflects Idaho Power's total cost to own, operate, and maintain the transmission facilities used for providing OATT service to transmission customers. The formula rate allows for transmission rates to be updated each year based primarily on financial and operational data Idaho Power is required to file annually with FERC in its Form 1. The transmission revenue requirement is then divided by the load divisor to calculate the annual point-to-point transmission rate.

Effective June 1, 2006, FERC accepted rates based on the formula for Idaho Power that used 2004 test year data, subject to refund pending the outcome of the hearing and settlement process. On August 8, 2007, FERC approved a settlement agreement by the parties on all issues except the treatment of contracts for transmission service that contain their own terms, conditions, and rates that were in existence before the implementation of the OATT in 1996. The contracts at issue were three legacy agreements: RATFA, RTSA, and ITSA.

Q. Please describe Idaho Power's position on the treatment of the RATFA, RTSA, and ITSA in the formula rate.

A. The Company's position regarding the RATFA, RTSA and ITSA was that the revenues received from the contracts pre-dated the OATT, and therefore, should be credited against the total transmission revenue requirement and that the total contract demand associated with the agreements should be excluded from the load divisor of the rate formula. In contrast, the customers' proposal was that the RATFA, RTSA, and ITSA were a service of the OATT even though revenues from the agreements were not subject to the OATT and that the contract demand associated with these agreements should be reflected in the load denominator of the formula rate.

Q. Did FERC accept Idaho Power's position on the treatment of the RATFA, RTSA, and ITSA in the formula rate?

A. No. On August 31, 2007, the FERC Presiding Administrative Law Judge ("ALJ") issued an initial decision ("Initial Decision") with respect to the treatment of these agreements. The ALJ's Initial Decision was to put load served under the RATFA, RTSA, and ITSA into the divisor at their usage level rather than the contract demand. The Company, as well as opposing parties, appealed the Initial Decision to the FERC. On January 15, 2009, FERC issued its Order on Initial Decision ("FERC Order") which upheld the Initial Decision of the ALJ in most respects but modified the Initial Decision in one important respect that was unfavorable to Idaho Power. The decision required Idaho Power to include the contract demands associated with the RATFA, RTSA, and ITSA in the OATT formula rate divisor rather than crediting the revenue against Idaho Power's transmission revenue requirement, reducing the OATT-based transmission service rates to Idaho Power's transmission customers.

Q. Please describe the magnitude of the impact the FERC Order had on Idaho Power's OATT.

A. The August 8, 2007, approval of the settlement agreement between the parties on all issues except the treatment of the RATFA, RTSA, and ITSA resulted in an annual OATT rate of $21.18/kW per year[4], which included a revenue credit of $8,756,646 associated with the three agreements. The FERC Order, that required the inclusion of the 2,014[5] MW of contract demand associated with the RATFA, RTSA, and ITSA in the OATT formula rate divisor and removal of the revenue credits associated with these agreements, reduced the OATT rate to $14.96/kW per year, or nearly 29 percent.

Q. How would the Legacy Replacement affect Idaho Power's OATT rate?

A. Upon termination of the RATFA, RTSA, and ITSA, the associated contract demands used in the calculation of Idaho Power's OATT formula rate will become zero. The resulting impact to the OATT formula rate will be reflected in the normal course of future annual updates[6].

V. **CUSTOMER BENEFITS**

Q. Has the Company determined what, if any, impact the Legacy Replacement will have on Idaho Power's retail customers' revenue requirement?

A. Yes. At my direction, an analysis was prepared that quantifies the present value revenue requirement impact of the Legacy Replacement over a ten-

[4] Based on 2005 Test Year data

[5] At the time of the FERC Order, the contract demand associated with the RTSA, TFA, and ITSA totaled 2,014 MW (RTSA=1,514 MW, TFA=250 MW, and ITSA=250 MW).

[6] Idaho Power's transmission rate effective period is October 1 to September 30.

year period (2015-2024). The analysis compares the annual revenue requirement differences between two scenarios: (1) a scenario in which there was no Legacy Replacement (business as usual) and (2) a Legacy Replacement scenario that reflects the provisions of the Legacy Replacement, including an increase to OATT revenues as a result of removing the RATFA, RTSA, and ITSA contract demands from Idaho Power's OATT formula rate divisor.

Q. What are the results of the present value revenue requirement analysis?

A. By entering into the Legacy Replacement, the Company's Idaho jurisdictional revenue requirement would be reduced on a present value basis by approximately $55.9 million over a ten-year period (2015-2024).

Q. If the net book value of the assets exchanged is nearly equal, what is driving the lower annual revenue requirements?

A. The increase in the OATT rate described in Section IV will lead to higher transmission revenues, which serves as a revenue credit to retail customer rates. The increase in the revenue credit is the main driver of the revenue requirement benefit derived from the Legacy Replacement.

Q. Have you prepared an exhibit demonstrating the estimated revenue requirement impact?

A. Yes. Exhibit 1 provides a summary of the revenue impact to the Company's Idaho jurisdictional retail customers.

Q. Will there be an immediate impact to retail customers' rates?

A. No. Commission approval of the Legacy Replacement will have no immediate retail customer rate impact for Idaho Power. A change to the revenue credit used to offset retail customer rates will occur when the Company files its next general rate case.

VI. CONCLUSION

Q. Please summarize your testimony.

A. The proposed Legacy Replacement will allow the Parties to have more streamlined ownership and capacity rights as a result of both the reallocation of ownership interests in jointly-owned facilities and the exchange of certain transmission facilities. The arrangement will enhance reliable operations for both Parties and provide the ability to efficiently operate consistent with evolving reliability standards. The Legacy Replacement creates a strong foundation for future business between the Parties and is in the best interest of each company's respective customers.

Q. Does this conclude your direct testimony in this case?

A. Yes, it does.

ATTESTATION OF TESTIMONY

STATE OF IDAHO)
) ss.
County of Ada   )

I, Lisa A. Grow, having been duly sworn to testify truthfully, and based upon my personal knowledge, state the following:

I am employed by Idaho Power Company as the Senior Vice President of Power Supply and am competent to be a witness in this proceeding.

I declare under penalty of perjury of the laws of the state of Idaho that the foregoing pre-filed testimony and exhibits are true and correct to the best of my information and belief.

DATED this 19th day of December, 2014.

Lisa A. Grow

Lisa A. Grow

SUBSCRIBED AND SWORN to before me this 19th day of December, 2014.

FRANCES J. MARTIN
NOTARY PUBLIC
STATE OF IDAHO

Frances J. Martin

Notary Public for Idaho
Residing at: Boise, ID
My commission expires: 4.10.17

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-14-41

CASE NO. PAC-E-14-11

GROW, DI
TESTIMONY

EXHIBIT NO. 1

Idaho Power Company
Idaho Jurisdictional Present Value Revenue Requirement Impact
Idaho Power Company and PacifiCorp Asset Swap
For the Years: 2015 - 2024

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
TOTAL COMBINED RATE BASE	2,489,334	4,217,148	3,599,612	3,022,845	2,482,769	1,976,000	1,492,559	1,016,592	540,400	64,208
OPERATING REVENUES										
OTHER OPERATING REVENUES	1,701,248	11,387,938	10,678,858	9,421,017	10,255,059	10,791,478	11,131,072	11,584,665	12,006,049	12,439,036
TOTAL OPERATING REVENUES	1,701,248	11,387,938	10,678,858	9,421,017	10,255,059	10,791,478	11,131,072	11,584,665	12,006,049	12,439,036
OPERATING EXPENSES										
OPERATION & MAINTENANCE EXPENSES	600,072	900,062	900,062	900,062	900,062	900,062	900,062	900,062	900,062	900,062
DEPRECIATION EXPENSE	208,714	208,714	208,714	208,714	208,714	208,703	208,703	208,703	208,703	208,703
PROVISION FOR DEFERRED INCOME TAXES	(4,303,396)	430,340	387,306	348,802	313,922	282,212	267,264	267,264	267,716	267,263
FEDERAL INCOME TAXES	4,287,601	2,968,153	2,775,591	2,398,854	2,704,783	2,910,164	3,035,422	3,184,177	3,321,950	3,464,369
STATE INCOME TAXES	823,659	570,190	533,198	460,826	519,595	559,050	583,112	611,688	638,155	665,514
TOTAL OPERATING EXPENSES	1,616,648	5,077,459	4,804,871	4,317,257	4,647,075	4,860,191	4,994,562	5,171,894	5,336,586	5,505,911
OPERATING INCOME	84,599	6,310,479	5,873,988	5,103,760	5,607,983	5,931,287	6,136,510	6,412,770	6,669,463	6,933,125
CONSOLIDATED OPERATING INCOME	84,599	6,310,479	5,873,988	5,103,760	5,607,983	5,931,287	6,136,510	6,412,770	6,669,463	6,933,125
AUTHORIZED RATE OF RETURN	7.86%	7.86%	7.86%	7.86%	7.86%	7.86%	7.86%	7.86%	7.86%	7.86%
RETURN	195,736	331,594	283,037	237,686	195,220	155,373	117,360	79,935	42,492	5,049
EARNINGS IMPACT (POSITIVE)	111,137	(5,978,885)	(5,590,950)	(4,866,074)	(5,412,763)	(5,775,914)	(6,019,150)	(6,332,836)	(6,626,972)	(6,928,076)
NET-TO-GROSS TAX MULTIPLIER	1.642	1.642	1.642	1.642	1.642	1.642	1.642	1.642	1.642	1.642
REVENUE IMPACT (POSITIVE)	**182,487**	**(9,817,329)**	**(9,180,340)**	**(7,990,093)**	**(8,887,757)**	**(9,484,051)**	**(9,883,444)**	**(10,398,516)**	**(10,881,487)**	**(11,375,902)**
NPV OF REVENUE IMPACT (POSITIVE)	**(55,942,004)**									